



Don't Snooze on the Opportunity to Buy Sleep Country Canada Holdings Inc.

Description

Sleep Country Canada Holdings Inc. ([TSX:ZZZ](#)) soared a whopping 9.54% in a single trading session after the company released very impressive record fourth-quarter and 2016 annual results. Is there still upside left from current levels? Or is the stock going back to sleep?

Sleep Country Canada Holdings is a Canadian mattress retailer that operates through two names: Dormez vous?, for its Quebec business, and Sleep Country Canada, which operates in the rest of Canada. The company has over 170 stores with distribution centres across the country.

How could you invest in a company that just sells mattresses? It sounds boring! And how many mattresses does a person buy in a given year? Sure, the company is boring, and mattress sales are cyclical, but it's important to note that the company doesn't just sell mattresses; it sells everything that goes with them as well. The company also sells bed frames, pillows, sheets, duvets, headboards, floorboards, and mattress pads.

Sleep Country knocks one out of the park with its earnings report

For Q4 2016, the company saw revenues increase by 13.7% to \$135.4 million from \$119.1 million during the same quarter the year before. Same-store sales grew by an impressive 9.6%, which marked the 14th consecutive quarter of positive same-store sales growth. Gross profit increased by a whopping 19.8% to \$39 million and adjusted EPS increased by an astonishing 36.1% to \$0.31 in the quarter.

For the full year, revenues, same-store sales, and gross profit grew by 14.8%, 10%, and 19.4%, respectively. The company opened 11 new stores and renovated 20 existing locations.

It truly was an incredible quarter, and I believe the huge rally that followed was warranted. I also think the stock could be on a sustained rally to higher levels thanks to positive momentum.

The management team is firing on all cylinders. David Friesema, CEO of Sleep Country Canada, stated that the team is "aimed at growing via a combination of new store openings in select markets, increased accessory revenue and enhanced store design and renovation." The growth initiatives paid

off big time, and the strategy is very likely to reward long-term shareholders going forward.

The mattress business is a great cyclical way to play a rebounding Canadian economy. But make sure you take profits off the table down the road because the stock has the potential to get obliterated in the event of a recession. The company is growing fast, but the stock isn't cheap with a 25.78 price-to-earnings multiple. Buy some of the stock now and more on any dips that may occur over the next year.

Stay smart. Stay hungry. Stay Foolish.

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